

## Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ARA-10 EA-09 EUR-12 NEA-10 ISO-00  
FEA-01 ERDA-07 AID-05 CEA-01 CIAE-00 COME-00  
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SS-15 STR-04 TRSE-00 ACDA-10 PA-02 PRS-01 /159 W  
-----211050Z 121398 /21

R 201552Z MAY 77  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC 1276  
INFO AMEMBASSY ABU DHABI  
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AMEMBASSY BEIRUT  
AMEMBASSY DOHA  
AMEMBASSY JAKARTA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY LIBREVILLE  
AMEMBASSY LONDON  
AMEMBASSY QUITO  
AMEMBASSY TEHRAN  
AMEMBASSY TRIPOLI  
AMEMBASSY VIENNA  
AMCONSUL DHAHRAN

UNCLAS LAGOS 5794

E.O. 11652 : NA  
TAGS : ENRG, NI  
SUBJ : FMG ANNOUNCES NEW PETROLEUM INVESTMENT INCENTIVES

REF : LAGOS 4025 AND PREVIOUS

1. WITHOUT ANY PRIOR NOTICE TO OIL COMPANIES, FMG ANNOUNCED  
NEW FISCAL INCENTIVES MAY 19. OFFICIAL STATEMENT SIGNED BY  
PERMANENT SECRETARY (SPECIAL DUTIES) S.B. AWONIYI FOR NIGERIAN  
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NATIONAL PETROLEUM CORPORATION (AWONIYI'S NEW TITLE NECESSITATED  
BY ABOLISHMENT OF MINISTRY OF PETROLEUM RESOURCES WHEN NNPC  
FORMED).

2. STATEMENT SUMMARIZED IN FOLLOWING PARAGRAPHS:

A. NIGERIA EXPERIENCED VERY LOW LEVEL EXPLORATION ACTIVITY

PAST THREE YEARS. PHENOMENON NOT PARTICULAR TO NIGERIA, BUT IS TREND WHICH HAS BECOME MORE AND MORE EVIDENT IN OPEC MEMBER COUNTRIES FOLLOWING STEPS SUCH COUNTRIES TOOK TO INCREASE CONTROL AND OWNERSHIP THEIR OIL RESOURCES. HAS BEEN OBVIOUS FOR SOME TIME STEPS NEEDED BE TAKEN IMPROVE INVESTMENT CLIMATE IN OPEC COUNTRIES TO ENCOURAGE OIL COMPANIES TO GREATER INVESTMENT AND MORE AGGRESSIVE ACTIVITIES.

B. HEAD OF STATE OBASANJO REFERRED TO VISIBLE LULL IN OIL ACTIVITY IN OCTOBER 1976 INDEPENDENCE ANNIVERSARY SPEECH, ASSURED NATION AND OIL COMPANIES MATTER WOULD BE STUDIED WITH VIEW GRANTING INCENTIVES. IN BUDGET SPEECH MARCH 1977 HEAD OF STATE SAID DETAILED WORK ON INCENTIVES IN FINAL STAGES.

C. FMG HAS NOW APPROVED WITH EFFECT FROM APRIL 1, 1977 INCENTIVE PACKAGE WHICH WILL ENSURE THAT INCENTIVES MATCHED STRICTLY AGAINST PERFORMANCE AS FOLLOWS:

D. EXPLORATION INCENTIVES. PREVIOUSLY ALL COSTS OF DRY WELLS EXPENSED WHILE TANGIBLE COST ITEMS FOR SUCCESSFUL WELLS CAPITALIZED. NOW ALL EXPLORATION DRILLING COSTS AS WELL AS COSTS FIRST TWO APPRAISAL WELLS, SUCCESSFUL OR NOT, SHALL BE EXPENSED. THIS TO ENCOURAGE EARLY DEFINITION OF DISCOVERIES.

E. PETROLEUM PROFITS TAX. FOR OIL COMPANIES NOT REPEAT NOT YET PRODUCING OIL, PETROLEUM PROFITS TAX ACT PROVIDES AT PRESENT THAT ALL PRE-PRODUCTION COSTS SHALL BE CAPITALIZED UNTIL PRODUCTION STARTS. LAW ALSO NOW PROVIDES THAT IF NOT TAX IS PAYABLE, COMPANY WILL PAY 15 PERCENT OF THE TAX IT WOULD UNCLASSIFIED

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HAVE BEEN OBLIGATED TO PAY IF NO CAPITAL DEPRECIATION HAD BEEN ALLOWED. THESE MEASURES HAVE PROVIDED BE DISINCENTIVES TO NEW INVESTMENT UNDER PRESENT TAX RATE OF 85 PERCENT AND ROYALTY RATE OF 20 PERCENT. IN ORDER ALLEVIATE SITUATION, TAX RATE FOR SUCH COMPANIES WILL BE REDUCED TO LOWEST LEVEL OPERATING IN ANY OPEC MEMBER STATE, THAT IS, 65.75 PERCENT. REDUCED TAX RATE WILL ONLY APPLY FOR PERIOD OF AMORTIZATION OF PRE-PRODUCTION COSTS, AFTER WHICH COMPANY WILL PAY USUAL 85 PERCENT TAX. INCENTIVE DESIGNED ATTRACT NEW INVESTORS.

F. ROYALTY INCENTIVE. AS OPPOSED PRESENT UNIFORM 20 PERCENT ROYALTY RATE, ROYALTY WILL NOW BE GRADUATED AS FOLLOWS, TAKING INTO ACCOUNT ENVIRONMENT OF OPERATIONS: 1) FOR ONSHORE PRODUCTION-20 PERCENT; 2) FOR OFFSHORE PRODUCTION IN AREAS UP TO 100 METERS WATER DEPTH--18 AND ONE HALF PERCENT; 3) FOR OFFSHORE PRODUCTION BEYOND 100 METERS --16 AND TWO-THIRDS PERCENT.

G. ANNUAL CAPITAL ALLOWANCES. IN ORDER THAT COMPANIES CAN

RECOVER INVESTMENT OUTLAYS IN LINE WITH PRESENT TREND IN BOTH WORLD CAPITAL MARKET AND OIL INDUSTRY, COMPANIES WILL BE ABLE AMORTIZE ASSETS IN FIVE EQUAL ANNUAL INSTALLMENTS. HOWEVER, THERE SHALL BE RETAINED IN BOOKS ONE PERCENT OF INITIAL COSTS OF EACH ASSET, WHICH MAY BE WRITTEN OFF ONLY ON AUTHORITY OF CERTIFICATE ISSUED BY COMMISSIONER FOR PETROLEUM.

H. INVESTMENT TAX CREDIT. IN ORDER ENCOURAGE AND REWARD OIL COMPANIES FOR NEW INVESTMENT A CAPITAL INVESTMENT TAX CREDIT NOW APPROVED. ANY COMPANY (EXISTING OR NEW) THAT OBTAINS ANY ASSET FOR PURPOSES OF PETROLEUM OPERATIONS WILL ENJOY TAX CREDIT ON SUCH ASSET FOR THE ACCOUNTING PERIOD IN WHICH THAT ASSET FIRST USED ACCORDING TO FOLLOWING SCALE: 1) OPERATIONS ON LAND--5 PERCENT; 2) OFFSHORE OPERATIONS IN AREAS UP TO AND INCLUDING 100 METERS OF WATER--10 PERCENT; 3) OFFSHORE IN WATER BETWEEN 100 AND 200 METERS DEEP--15 PERCENT; 4) OFFSHORE IN WATER OVER 200 METERS DEEP--20 PERCENT.  
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I) RELEVANT AMENDMENTS TO PETROLEUM PROFITS TAX ACT OF 1959 AND PETROLEUM DRILLING AND PRODUCTION REGULATIONS OF 1969 BEING MADE AND WILL BE PUBLISHED SOON.

4. COMMENT: FOLLOWS IN SEPTTEL.  
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## Message Attributes

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